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SPOONER

MINES AND OILS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED
JUNE 30th 1977

SPOONER MINES AND OILS LIMITED

Head Office: Suite 916
111 Richmond Street West
Toronto, Ontario M5H 2G4

Calgary Office
Mailing Address: P.O. Box 7307
Postal Station "E"
Calgary, Alberta T3C 0K0

Directors: F. D. Corman
V. N. Harbinson
A. G. Matthew
E. F. Merringer
R. A. Shaw
D. C. Vickers

Officers: V. N. Harbinson
Chairman of the Board & President

D. C. Vickers
Secretary

A. G. Matthew
Treasurer

R. A. Shaw
Assistant Secretary

S. D. Epp
Assistant Treasurer

Transfer Agent and Registrar: Crown Trust Company
Toronto, Ontario

Legal Counsel: Manning, Bruce, Macdonald & Macintosh
Toronto, Ontario

Auditors: Thorne Riddell & Co.
Toronto, Ontario

Share Listing: The Toronto Stock Exchange
The Alberta Stock Exchange

SPOONER MINES AND OILS LIMITED

Directors' Report

TO THE SHAREHOLDERS:

Your Directors are pleased to present the Annual Report of the Company which includes the financial statements and Auditors' Report for the year ended June 30, 1977.

MINING

Consolidated Durham Mines & Resources Limited:

Spooner Mines and Oils Limited manages the overall affairs of Durham's antimony mine, situated in the Province of New Brunswick, under a contractual agreement whereby Spooner receives 15% of Durham's net income after taxes from that operation. Further details of this agreement are referred to in the notes which accompany the financial statements.

Highlights of the Durham operation for the year ended June 30, 1977 are as follows:

Revenue from production of antimony concentrates was \$6,532,482. Net earnings after mining taxes and taxes on income aggregating \$991,000, amounted to \$1,391,041 for the year or approximately 27 cents per share.

Ore reserves now stand at 389,110 tons of drill indicated and proven ore grading 4.22% antimony. During the year 100,780 short tons of ore were mined. An extensive exploration programme consisting of line cutting, geochemical and geophysical surveys, including over 20,000 feet of core drilling has commenced.

Operations for the year were free of major interruptions and between ninety-five and one hundred persons were employed. Production for the year amounted to 3,896 metric tons of concentrate grading 65.94% antimony.

In September 1976 Durham initiated a semi-annual dividend payment in the amount of 5 cents per share.

NBU Mines Limited:

Spooner holds 170,800 shares of NBU Mines Limited. NBU directly and indirectly owns a 33% interest in a base metal deposit in the Sturgeon Lake area of Northwestern Ontario. In February 1975 the mine was officially placed on stream with a rated capacity of 1,200 tons per day.

As of December 31, 1976 cut and dilute ore reserves were estimated as follows:

Directors' Report (continued)

	<u>%</u>	<u>%</u>	<u>%</u>	<u>Silver</u>	<u>Gold</u>
<u>Tons</u>	<u>Copper</u>	<u>Zinc</u>	<u>Lead</u>	<u>oz/ton</u>	<u>oz/ton</u>
1,360,000	3.01	9.06	1.10	5.47	0.020

The above figures exclude oxidized open pit ore which will be mined subsequently, as well as ore which may be mined at a later date by underground methods. Mine operating profit of the total Sturgeon Lake project is approximately \$1,000,000 per month at current metal prices. Falconbridge Copper Limited is the operator.

PETROLEUM AND MINING

The Company retains its holdings in various areas of Western Canada. A part of its holdings in the Canadian Arctic have been abated as a result of unsuccessful drilling by Panarctic Oils Limited in certain areas. The reduction in these holdings was the decision of the Consortium. The Company continues to hold a 0.5291% interest in 160,415 acres and a 0.73805% interest in 2,360,478 acres on Bathurst Island.

The Company retains its mining interest in Ungava Bay, Quebec, which is under farm-out to Imperial Oil Enterprises (Imperial Oil). An indirect interest is still held in certain applications and permits in Greenland.

FINANCIAL

Revenue for the year amounted to \$373,135 as compared to \$145,717 in the prior year. Working capital at June 30 was \$450,044 as compared to \$259,359 in the prior year. These figures exclude Spooner's shareholdings in Consolidated Durham Mines & Resources Limited and NBU Mines Limited which at June 30th had a combined market value of \$740,476.

Management is confident that with your continuing support, Spooner Mines and Oils Limited will achieve and enhance its objectives in the natural resource field.

On behalf of the Board,

V. N. HARBINSON
Chairman of the Board & President

Toronto, Canada
November 22, 1977

SPOONER MINES AND OILS LIMITED

(Incorporated under the laws of Canada)

Balance Sheet

	ASSETS	
	June 30,	
	1977	1976
Current assets		
Cash	\$ 242,926	\$ 170,982
Accounts receivable	220,746	160,231
Deposits	1,000	1,000
	<u>464,672</u>	<u>332,213</u>
Interest in and advances to other companies (note 1)	726,902	626,194
Oil and gas interests (notes 2 and 6)	<u>89,338</u>	<u>92,943</u>
Other assets and deferred expenditures		
Mining claims (notes 3 and 6)	80,000	79,000
Fixed assets, at cost less accumulated depreciation	26,798	6,830
	<u>106,798</u>	<u>85,830</u>
	<u>\$1,387,710</u>	<u>\$1,137,180</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	\$ 14,628	\$ 36,854

SHAREHOLDERS' EQUITY

Capital stock (note 4)		
Authorized — 10,000,000 shares without par value		
Issued — 9,014,788 shares (1976, 8,764,788 shares)	4,250,059	4,200,059
Deficit	<u>2,876,977</u>	<u>3,099,733</u>
	<u>1,373,082</u>	<u>1,100,326</u>
	<u>\$1,387,710</u>	<u>\$1,137,180</u>

Contingent liabilities (note 8)

Approved by the Board

V. N. HARBINSON, Director

A. G. MATTHEW, Director

SPOONER MINES AND OILS LIMITED

Statement of Income

	Year Ended June 30,	
	1977	1976
Revenue		
Management fees (net) (note 7)	\$ 245,000	\$ 120,100
Profit from oil and gas operations (gross revenue \$82,748, 1976, \$71,336) ...	35,811	22,973
Interest earned	16,584	2,644
Dividend income	63,712	
Profit from sale of property	12,028	
Income before undernoted items	373,135	145,717
Exploration and administrative expenditures written off	148,377	407,744
Unproductive oil and gas lease costs, development expenditures and production equipment written off	2,002	8,243
	150,379	415,987
Less profit on sale of shares in other companies		19,698
	150,379	396,289
Net income (loss)	\$ 222,756	\$ (250,572)
Earnings (loss) per share	\$0.025	\$(0.031)

Statement of Deficit

	Year ended June 30,	
	1977	1976
Deficit at beginning of year	\$3,099,733	\$2,849,161
Net income (loss)	222,756	(250,572)
Deficit at end of year	\$2,876,977	\$3,099,733

Statement of Changes in Financial Position

	Year ended June 30,	
	1977	1976
Working capital derived from		
Income before undernoted items as shown on statement of income	\$ 373,135	\$ 145,717
Add depreciation and depletion not requiring current outlay of working capital	3,653	3,466
	376,788	149,183
Issue of shares of capital stock	50,000	150,000
Proceeds from sale of shares in other companies		22,286
	426,788	321,469
Working capital applied to		
Oil and gas interests	2,051	2,004
Mining claims	1,000	
Fixed assets	28,762	6,920
Interest in and advances to other companies	100,708	107,110
Exploration and administrative expenditures less depreciation of \$8,795 (1976, \$1,939)	139,582	87,577
	272,103	203,611
Increase in working capital	154,685	117,858
Working capital at beginning of year	295,359	177,501
Working capital at end of year	\$ 450,044	\$ 295,359

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements – year ended June 30, 1977

1. Interest in and advances to other companies

	1977	1976
Consolidated Durham Mines & Resources Limited*		
665,125 shares (594,125 shares in 1976) at cost (quoted market value at June 30, 1977, \$532,100)	\$285,827	\$232,110
Shares in NBU Mines Limited		
170,800 shares (145,800 shares in 1976) at cost (quoted market value at June 30, 1977, \$208,376)	66,000	19,009
Shares in New Quebec Mining and Exploration Limited		
447,000 shares, at cost less \$7,000 forfeited on option to purchase (no quoted market value)	366,488	366,488
480,000 escrow shares, at nominal value	1	1
Other shares, at cost (no quoted market value)	8,586	8,586
	<u>\$726,902</u>	<u>\$626,194</u>

*Because of the large number of shares held in Consolidated Durham Mines & Resources Limited, the amount that may be realized on disposal of these shares may be more or less than the quoted market value.

2. Oil and gas interests

	1977	1976
Oil and gas leases, at cost	\$ 31,960	\$ 32,962
Development expenditures deferred	123,655	124,646
Production equipment, at cost	84,380	82,379
	<u>239,995</u>	<u>239,987</u>
Less depletion and accumulated depreciation	201,281	198,437
	38,714	41,550
Royalty interest, at cost less depletion	1,326	2,137
Participation in Arctic Oil exploration, at cost	49,298	49,256
	<u>\$ 89,338</u>	<u>\$ 92,943</u>

Where oil and gas reserve figures are available, depletion has been provided on the unit of production method at rates calculated to amortize the lease costs and development expenditures in the proportion production bears to estimated reserves of oil and gas. Where reserve figures are not available, amortization has been determined on an estimated basis.

Unproductive oil and gas lease costs and applicable deferred development expenditures are written off when it is determined that the lease area is of no further interest to the company.

3. Mining claims

	1977	1976
Ungava Bay, Province of Quebec	\$79,000	\$79,000
Under an agreement dated February 1, 1970 Imperial Oil Enterprises (Imperial Oil) agreed to undertake an exploration program on this property. Imperial Oil has spent approximately \$480,000 and thereby has earned a 75% interest in the property now under an exploration permit.		

If requested, Spooner is to pay its proportionate share of expenditures in excess of \$400,000 or be abated by 1% for each \$10,000 of non-participation until it

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements – year ended June 30, 1977 (continued)

reaches a minimum of 10%. The abated interest under certain circumstances is recoverable by Spooner.

To date no request for payment has been received.

Matthews Lake Claims, Province of Ontario

23 claims were purchased for cash	1,000	
	<u>\$80,000</u>	<u>\$79,000</u>

4. Capital stock

Issued

During the year ended June 30, 1977, 250,000 shares were issued for a cash consideration of \$50,000.

During the year ended June 30, 1976, 750,000 shares were issued for a cash consideration of \$150,000.

Options

At June 30, 1977 employees held options on 5,000 shares at \$1.25 per share expiring on June 24, 1980.

5. Income taxes

No provision for income taxes is required due to the application of a portion of exploration and development expenditures deductible under the Income Tax Act.

The company has costs of oil and gas interests, mining exploration expenditures and depreciation available for tax purposes at June 30, 1977 of approximately \$1,094,000.

6. Recovery of costs

At June 30, 1977 the cost of participating in oil and gas interests amounting to \$89,338 has been deferred with the intention that it should be amortized along with the costs of mining claims by charges against income from future oil and mining operations. The recovery of these costs is dependent, therefore, upon the obtaining of adequate financing and the development of economic oil and mining operations.

7. Management contract

Under an agreement dated July 8, 1970 with respect to an antimony property at Lake George, New Brunswick, Spooner is to provide overall operating management, after the commencement of production, at cost plus 15% of net profits, as defined, from the operations for a period of five years from January 1, 1972, renewable for a further five years at Spooner's option. Spooner exercised its option and is committed to provide management services to January 1, 1982.

8. Contingent liabilities

Actions were commenced in the Supreme Court of Ontario on September 8, 1972 and April 30, 1973 by two former employees of the company. The company is defending both suits and, in the opinion of the company's counsel, it has good defences thereto.

9. Other statutory information

	1977	1976
Number of directors	6	6
Aggregate remuneration of directors as directors	\$ 1,100	\$ 2,900
Number of officers	6	6
Aggregate remuneration of officers as officers, including consulting fees	\$20,000	\$ 9,350
Number of officers who are also directors	5	5
Depreciation and depletion	\$12,449	\$ 5,405

Auditors' Report

To the Shareholders of
Spooner Mines and Oils Limited

We have examined the balance sheet of Spooner Mines and Oils Limited as at June 30, 1977 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at June 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
October 17, 1977

THORNE RIDDELL & CO.
Chartered Accountants

SPOONER MINES AND OILS LIMITED

(Incorporated under the laws of Canada)

HEAD OFFICE: Suite 916, 111 Richmond Street West, Toronto, Ontario

Management Proxy Circular

Solicitation of Proxies:

This information circular is furnished in connection with the solicitation by the management of Spooner Mines and Oils Limited ("the Company") of proxies to be used at the Annual and Special General Meeting of Shareholders of the Company to be held at the time and place and for the purposes set forth in the enclosed notice of meeting. It is expected that the solicitation will be primarily by mail but proxies may also be solicited personally by regular employees of the Company at nominal cost. The cost of solicitation by management will be borne by the Company.

Appointment and Revocation of Proxies

A proxy may be executed by the shareholder or his attorney in writing, or if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized. The persons named in the enclosed form of proxy are directors and/or senior officers of the Company. **A shareholder desiring to appoint some other person to represent him at the meeting may do so** either by inserting such person's name in the blank space provided on that form of proxy or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company before the time of holding the meeting.

A proxy given pursuant to this solicitation may be revoked by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and delivered either at the head office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting, or adjournment thereof.

A shareholder may also revoke a proxy by either (a) signing a proxy bearing a later date and delivering it to the Secretary of the Company, or (b) as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by signing a written revocation and delivering it to the Secretary of the Company or the Chairman of the meeting or (c) by personal attendance at the meeting.

Exercise of Discretion by Proxies:

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction, such shares will be voted in favour of the special resolution authorizing the directors to apply for a certificate of continuance under the Canada Business Corporations Act, in favour of approval of By-Law No. B-1, in favour of adoption of the employees' stock option plan and in the election of directors and appointment of auditors as stated under those headings in this circular.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this circular, the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

Voting Shares

On November 22, 1977 the Company had outstanding 9,014,788 shares without nominal or par value, each carrying the right to one vote per share. Any registered shareholder of record at the time of the meeting will be entitled to attend and vote at the meeting.

To the knowledge of the directors and senior officers of the Company, the following are the only persons or companies beneficially owning, directly or indirectly, greater than 10% of the outstanding equity shares of the Company as of November 22, 1977.

<u>Name and Address</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of Issued Shares</u>
V. N. HARBINSON, RR#1, Kinmount, Ontario (Direct and indirect)	1,684,368	18.7%

Election of Directors

The Board presently consists of six directors to be elected annually. Each director elected will hold office until the next annual meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

The management of the Company does not contemplate that any of the nominees will be unable to serve as a Director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy will vote for another nominee in their discretion unless the shareholder has specified in the proxy that his shares are to be withheld from voting in the election of directors.

In the following table and note thereto are stated the names of all the persons proposed to be nominated for election as directors, all other positions and offices with the Company now held by them, if any, their principal occupations or employments, the period or periods of their service as directors of the Company and the approximate number of shares of the Company beneficially owned, directly or indirectly, by each of them as of November 22, 1977.

<i>Name and Position with the Company</i>	<i>Principal Occupation</i>	<i>Director Since</i>	<i>Number of Shares</i>
V. N. Harbinson Chairman of the Board and President	Mining Executive.	1956	1,684,368
A. G. Matthew Treasurer	President of Consolidated Durham Mines & Resources Limited and a Director of other resource companies.	1974	1
E. F. Merringer	Partner, Messrs. Manning, Bruce, Macdonald and Macintosh, Toronto	1976	25
F. D. Corman Vice-President	Geologist and Mining Executive	1970	3,600
R. A. Shaw Assistant Secretary	Assistant Secretary-Treasurer of Consolidated Durham Mines & Resources Limited and other resource companies.	1974	1
D. C. Vickers Secretary	Secretary-Treasurer of Consolidated Durham Mines & Resources Limited and Director of other resource companies.	1974 1974	1 1

NOTE: The information as to shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective nominees individually.

Directors and Officers Remuneration:

Nature of remuneration earned

Remuneration of Directors:

(A) Number of Directors: 6

(B) Body Corporate incurring the expense – Spooner Mines and Oils Limited

Remuneration of Officers:

(A) Number of Officers: 6

(B) Body Corporate incurring the expense – Spooner Mines and Oils Limited

TOTALS:

<i>Directors' Fees</i>	<i>Salaries</i>	<i>Bonuses</i>	<i>Non- Accountable Expense Allowance</i>	<i>Others</i>	<i>Total</i>
\$1,100	Nil	Nil	Nil	Nil	\$ 1,100
Nil	\$20,000	Nil	Nil	(see note) \$43,350	63,350
\$1,100	\$20,000	Nil	Nil	\$43,350	\$64,450

NOTE: Other Remuneration:

Administrative management and head office facilities are provided to the Company by an arrangement with Professional Management Services a sole proprietorship of Mr. V. N. Harbinson, the Chairman of the Board and President of the Company. Financial and investment advisory services are provided to the Company by an arrangement with Chapco Investment Corporation Limited in which Mr. Harbinson has a controlling interest. The amount of \$43,350 shown above is the aggregate sum paid or payable by the Company pursuant to both these arrangements during the fiscal year ended June 30, 1977.

Appointment of Auditors

Unless such authority is withheld, the persons named in the accompanying proxy intend to vote for the reappointment of Thorne Riddell & Co., Chartered Accountants, Toronto, as auditors of the Company to hold office until the next Annual Meeting of Shareholders and authorize the directors to fix their remuneration.

Application of Continuance and By-law No. B-1

The Canada Business Corporation Act (the "New Act") came into force on December 15, 1975. Federally incorporated companies such as Spooner Mines and Oils Limited must voluntarily apply for a Certificate of Continuance under the New Act prior to December 15, 1980. The Directors have determined that it is in the best interest of the Company to apply for continuance at this time.

The New Act provides that Articles of Continuance, after a Certificate of Continuance has been issued, are deemed to be the charter documents of the Company. The draft Articles of Continuance which will be presented to the shareholders are substantially identical to existing charter provisions except for certain amendments required or permitted by the new Act. For example, there will no longer be (i) a limit in the maximum number of shares that the Company will be authorized to issue or (ii) any restrictions on the business which the Company may carry on. There are a number of differences between the New Act and the existing Canada Corporations Act and the foregoing is not intended to be a summary of the effects of continuance under the New Act.

Articles of Continuance must be authorized by at least two-thirds of the votes cast at a meeting of shareholders called for the purpose.

As part of the process of continuance under the New Act, shareholders will also be requested to approve, with or without variation, By-law No. B-1 passed by the Directors on November 22, 1977. This by-law is a new form of general by-law of the Company prepared in accordance with the provisions of the New Act. If confirmed by a majority of votes cast at the forthcoming meeting of shareholders, By-law No. B-1 will become effective on the date of the issue to the Company of a Certificate of Continuance.

Shareholders' Resolution – Incentive Stock Option Plan:

At a meeting of the Board of Directors held on November 22, 1977, the Directors approved the establishment of an Employees Stock Option Plan covering 400,000 shares of the Corporation to be issued from time to time to the Directors, officers and employees of the Corporation at the appropriate discounts. The establishment of the Plan is subject to the approval by a majority of votes cast at the Shareholders meeting and the consent of any regulatory authority having jurisdiction.

Documentation

A draft of the special Shareholders' resolution authorizing the application for a Certificate of Continuance, together with a draft of the Articles of Continuance, a copy of By-law No. B-1, a draft of the Shareholders' resolution authorizing the establishment of the Plan together with a copy of the Employees' Stock Option Plan will be available to any shareholder prior to the meeting upon written request to the Secretary of the Company and to all shareholders attending the meeting.

General

The information contained herein is given as of November 22, 1977. The management knows of no matters to come before the Annual and Special General Meeting of Shareholders other than the matters referred to in the notice of meeting. Receipt at such meeting of reports of the directors and auditors and the Company's financial statements for its last completed fiscal period will not constitute approval or disapproval of any matters referred to therein. If any matters which are not now known should properly come before the meeting, the accompanying proxy instrument will be voted on such matters in accordance with the best judgement of the person voting it.

Directors' Approval:

The contents of this Management Proxy Circular and the sending thereof have been approved by the Directors of the Company.

Toronto, Canada
November 22, 1977.

D. C. Vickers
Secretary

